National Energy Board

Reasons for Decision

Northridge Petroleum Marketing, Inc.

GO-2-85

March 1985

Application for a Short-Term Gas Export Order for Sales to the Southeastern Michigan Gas Company

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In the Matter of

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IN THE MATTER OF the *National Energy Board Act* (hereinafter called "the Act") and the Regulations made thereunder;

AND IN THE MATTER OF an application by Northridge Petroleum Marketing, Inc. (hereinafter called "Northridge") for a short-term gas export order pursuant to subsection 8(2) of the National Energy Board Part VI Regulations.

AND IN THE MATTER OF the incrementality of the proposed Northridge sale heard in Ottawa, Ontario on 8 March 1985.

Considered by the Board in Ottawa, Ontario on Monday, the 11th day of March 1985.

Chapter 1
Application

Northridge's application, dated 12 December 1984, as amended 20 December 1984 and 17 January 1985, was for approval of a short-term order to export up to 170.0 X 10^6 m^3 (6 Bcf) of natural gas to the Southeastern Michigan Gas Company of Port Huron, Michigan, during the period ending 1 December 1986.

Northridge is a Calgary-based company which provides natural gas marketing services to smaller and intermediate-sized Canadian natural gas producing companies.

Northridge applied for an order to include the following conditions:

Maximum Daily Quantity	-	Not to exceed 566.6 x $10^3 m^3$ (20 MMcf)
Total Authorized Quantity	-	Not to exceed 170.0 X -$10^6 m^3$ (6 Bcf)
Term	-	Period ending 1 December 1986. The gas proposed for export is only to be exported during the period 1 March through 1 December of 1985 and 1986.
Selling Price	-	$U.S. 2.79 per gigajoule (GJ) ($U.S. 2.99 per MMBtu) during the first year. For the second year the contract price is to be renegotiated relative to the prevailing market conditions of alternate energy sources.
Export Point	-	Emerson, Manitoba

The gas proposed for export would be transported by NOVA, An Alberta Corporation (NOVA) to the Alberta-Saskatchewan border. From there the gas would be transported through the facilities of TransCanada PipeLines Limited (TransCanada) to the Emerson, Manitoba export point. TransCanada would transport the gas under an interruptible best efforts contract.

From the export point the gas would be transported through the facilities of Great Lakes Gas Transmission Company (Great Lakes) and ANR Pipeline Company (ANR) for delivery to Southeastern in St. Clair County, Michigan. Northridge stated that it had applied for an energy removal permit for the proposed export quantities

However, until such time as the removal permit is received, Northridge proposes to purchase the required quantities from TransCanada which would use its existing removal permits for the Northridge sale. In this regard Northridge provided the Board with a letter of intent to this effect from TransCanada.

Southeastern will use this gas in two ways:

1) to preclude industrial loads from switching to No. 6 fuel oil; and

2) to fill storage for winter peaking purposes.

Under the terms of the Northridge/Southeastern Gas Purchase Contract dated 7 November 1984, Southeastern agreed to a best efforts purchase of up to 566.6 thousand cubic metres per day (20 MMcf/d) or 85.0 million cubic metres (3 Bcf) per year at a price of $U.S. 2.89 per GJ ($U.S. 3.10 per MMBtu). Subsequently Northridge had to reduce the proposed price in order to compete with an offer by ANR Gathering Company (ANR Gathering) for U.S. gas from the states of Oklahoma, Texas and Kansas which was priced at $U.S. 2.61 per GJ ($U.S. 2.80 per MMBtu) and resulted in a laid-in market price to Southeastern of $U.S. 3.27 per GJ ($U.S. 3.51 per MMBtu). Northridge's proposed export price of $U.S. 2.79 per GJ ($U.S. 2.99 per MMBtu) would also result in a laid-in price to Southeastern of $U.S. 3.27 per GJ ($U.S. 3.51 per MMBtu). Southeastern has requested, by letter dated 15 January 1985, to amend the purchase price in the Gas Purchase Contract to reflect Northridge's proposed price once the required approvals have been issued.

The sale and purchase of gas under the Northridge/Southeastern contract would be on a best efforts basis and as such the supply could be interrupted.

Chapter 2
Reasons for Decision

Applicants seeking Board approval for a short-term gas export order under subsection 8(2) of the Part VI Regulations together with approval of a negotiated export selling price are required to demonstrate according to the National Energy Board Regulatory Procedures and Information Requirements for Applicants Filing for Short-term Natural Gas Export Orders that their contractual arrangements meet the following criteria as set forth in the Government's Natural Gas Export Pricing Policy statement dated 13 July 1984.

Government Export Pricing Policy Criteria

(1) "The price of exported natural gas must recover its appropriate share of the costs incurred."

Evidence:

Northridge submitted that the proposed export price of $U.S. 2.79 per GJ ($U.S. 2.99 per MMBtu) recovered the sum of the Alberta border price and transportation costs for moving the gas to the Emerson, Manitoba export point which equals $U.S. 2.27 per GJ ($U.S. 2.43 per MMBtu). Northridge's revenue/cost comparison is shown below.

Revenues and Associated Costs[1]

	$U.S. per GJ	$U.S. per MMBtu
Revenue	2.79	2.99
Associated Costs		
Alberta border price	2.09	2.24
TCPL Transportation from Alta. Border to Emerson, Man.[2]	0.18	0.19
Total Associated Costs	2.27	2.43

Finding:

The Board is satisfied that Northridge's proposed export selling price would recover its appropriate share of the costs incurred.

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(1) $U.S. 1.00 = $Cdn. 1.3350

(2) Based on a weighted average calculation of 2 months Winter Authorized Overrun Interruptible (AOI) rate of $U.S. 0.21 per GJ ($U.S. 0.22 per MMBtu) and 7 months Summer (AOI) rate of $U.S. 0.17 per GJ ($U.S. 0.18 per MMBtu) since the exports are to occur during the 9-month period March through November.

(2) "The price of exported gas must not be less than the wholesale price of natural gas at the Toronto city gate and sold under similar terms and conditions."

Evidence:

The Applicant submitted evidence which demonstrated that its proposed export selling price of $U.S. 2.79 per GJ ($U.S. 2.99 per MMBtu) was higher than the Toronto city gate price of $U.S. 2.72 per GJ ($U.S. 2.92 per MMBtu) consisting of the sum of the Alberta border price plus TransCanada's Eastern Zone toll for AOI summer service plus any appropriate taxes.

Finding:

The Board is satisfied that the Applicant's proposed export selling price meets criterion (2).

(3) "The price of exported gas must result in prices, in the United States market area, at least equal to the price of major competing energy sources."

Evidence:

In its amended application, Northridge advised that to compete with an offer made to Southeastern by ANR Gathering to supply the proposed quantity at a delivered price of $U.S. 3.27/GJ ($U.S. 3.51/Mcf), Northridge required an export price at Emerson, Manitoba of $U.S. 2.79 per GJ ($U.S. 2.99 per MMBtu). This calculation is shown below:

Calculation of the Required Northridge Export Price in Order to Compete with the Proposed ANR Gathering Company Sale to Southeastern

	$U.S./GJ	$U.S./MMBtu
Delivered ANR Gathering Price	3.27	3.51
Less:		
Great Lakes Transportation	0.41	0.44
ANR Pipeline		
Fixed Rate	0.03	0.03
Gas Research Institute Surcharge	0.01	0.01
Facilities Charge	0.04	0.04
Required Northridge Export Price	2.79[1]	2.99

Finding:

The Board agrees with Northridge that the U.S. gas offered by ANR Gathering is the energy source competing with this sale. The Board is satisfied that criterion (3) has been met.

(4) "Export contracts must contain provisions which permit adjustments to reflect changing market conditions over the life of the contact."

[1] Totals may not add due to rounding.

Evidence:

The price under the contract will remain fixed for one year at which time the price will be redetermined taking into consideration the prevailing market conditions and the price of alternative energy supplies.

Finding:

The Board is satisfied that criterion (4) has been met.

(5) "Exporters must demonstrate that export arrangements provide reasonable assurance that volumes contracted will be taken."

Evidence:

The Applicant submitted that the gas was to be taken and stored by Southeastern in the summer months and used to meet peaking requirements in the winter months. As such the export will take place when there is ample pipeline capacity to move the gas.

Finding:

The Board is satisfied that criterion (5) has been met.

(6) "Exporters must demonstrate that producers supplying gas for an export project endorse the terms of the export arrangements and any subsequent revisions thereof."

Evidence:

The Applicant filed letters of support from each of the five participating producers who will be supplying gas for the export as well as additional letters of support from three working interest owners who are directly affiliated with the above-noted producers. The Alberta Petroleum Marketing Commission (APMC), acting on behalf of the Province of Alberta, offered its support of the application conditional upon the following filing requirements being met:

(a) an executed amending sales agreement to reflect the selling price of $U.S. 2.79 per GJ ($U.S. 2.99 per MMBtu);

(b) executed Nova and TransCanada transportation contracts;

(c) executed U.S. transportation contracts; and

(d) an Alberta removal permit.

The APMC indicated that if these above-noted agreements and permits were filed, it would not object to the Northridge application.

Finding:

The Board is satisfied that criterion (6) has been met.

(7) "Exporters must demonstrate that the sales are truly incremental and will not displace other Canadian gas sales, directly or indirectly."

After receiving comments from interested parties who expressed concerns with respect to the incrementality of the proposed Northridge sale the Board decided that the public interest required that a public hearing be held in order to determine the same. Said Hearing took place on 8 March 1985 and the Board's Reasons for Decision on this matter are attached as an appendix to this document.

Finding:

The Board found in its Decision that the proposed sale was incremental at this time but because of uncertainty with regard to Federal Energy Regulatory Commission (FERC) regulatory policies, its finding on this criterion and hence the application itself is limited to the period ending 31 March 1986.

(8) "Exporters must demonstrate, if applicable, that the sales are on an interruptible or best efforts basis to ensure that longer term export sales and capacity to meet Canadian requirements are not preempted."

Evidence:

Northridge submitted that its export sales contract was for a two-year term only and is a best efforts contract with provision for interrupting the gas supply in the event that pipeline or production capability was required for other firm export or domestic requirements.

Finding:

The Board is satisfied that criterion (8) has been met.

Chapter 3
Decision

The Board has examined the Northridge application in order to determine whether it meets the guidelines contained in the Ministerial statement dated 13 July 1984 and finds that in each instance the requirements contained in these criteria have been met. With regard to criterion (7) the Board finds that the Applicant has met the requirement for the period ending 31 March 1986. The Board's Reasons for Decision regarding its findings for criterion (7) are an appendix to this report.

Accordingly, the Board having taken into account all the matters concerning the Northridge application for a short-term gas export by order, has concluded that the proposed export is in the public interest and hereby approves the Northridge application, pursuant to subsection 8(2) of the National Energy Board Act, for the period 1 April 1985 to 31 March 1986. The Board will consider the second year of the proposed Northridge short-term order prior to the commencement of the second year. In this regard the Board would expect the Applicant to submit evidence so as to substantiate that the proposed export price, incrementality and other terms and conditions for the period commencing 1 April 1986 meet the guidelines contained in the Ministerial statement dated 13 July 1984.

The attached Order No. GO-2-85 is Northridge's authorization to export gas under the conditions contained therein. As conditions to the Order the Board requires that Northridge file with the Board prior to the commencement of the export and in any case on or before 30 April 1985 the following agreements and permits:

(a) the required Alberta energy removal Permit or, as required during the interim period, an executed interim supply agreement between TransCanada and Northridge;

(b) an executed transportation agreement for transporting the gas to the Emerson, Manitoba export point; and

(c) an executed amending sales contract to reflect the approved export price of $U.S. 2.79 per GJ ($U.S. 2.99 per MMBtu).

C.G. Edge
Chairman

L.M. Thur
Associate Vice-Chairman

R.B. Horner
Member

A.B. Gilmour
Member

Ottawa, Canada
March 1985

NATIONAL ENERGY BOARD OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. GO-2-85

IN THE MATTER OF the *National Energy Board Act* and the Regulations made thereunder; and

IN THE MATTER OF an application by Northridge Petroleum Marketing, Inc. for an Order pursuant to subsection 8(2) of the National Energy Board Part VI Regulations, filed with the Board under File No. 1537-N48-1.

BEFORE the Board on Monday, the 11th day of March, 1985.

UPON an application dated the 12th day of December, 1984, as amended by letters dated 20 December 1984 and 17 January 1985, by Northridge Petroleum Marketing, Inc. (hereinafter called "the Applicant") for an Order, pursuant to subsection 8(2) of the National Energy Board Part VI Regulations, authorizing the exportation to the United States of America at a place on the international boundary line between Canada and the United States of America near Emerson, in the Province of Manitoba, of up to 566 556 cubic metres of natural gas per day and up to 169 966 856 cubic metres over a two-year term ending on 1 December 1986, for sale to Southeastern Michigan Gas Company of Port Huron, Michigan;

IT IS ORDERED THAT the Applicant be and is hereby authorized, pursuant to subsection 8(2) of the National Energy Board Part VI Regulations, to export natural gas, during the term hereof, for sale to Southeastern Michigan Gas Company upon the following terms and conditions:

1. The term of this Order shall be for the period commencing on the lst day of April, 1985, and ending on the 31st day of March, 1986.

2. The total quantity of natural gas that may be exported under the authority of this Order shall not exceed:

   (a) 566 600 cubic metres of natural gas in any one day, or

   (b) 85 000 000 cubic metres during the term of this Order. 2

3.(1) The price to be received for the natural gas exported in each month comprised in the term of this Order, including all transmission costs of moving gas to the international boundary line between Canada and the United States of America, shall be the Canadian dollar equivalent of not less than 279.0 cents in United States currency per gigajoule of gross heating value.

(2) The Canadian dollar equivalent for each month during the term of this Order shall be an amount in Canadian dollars equal to the price in United States dollars specified in subcondition 3(l), converted to Canadian dollars at the rate of exchange for each such month, which rate of exchange shall be the average of the noon spot exchange rates for the United States dollar in terms of Canadian dollars in each such month, as published by the Bank of Canada.

4. Prior to the commencement of any export of natural gas authorized hereunder, the Applicant shall file with the Board, in a form satisfactory to the Board, the following documentation:

   (a) a fully executed amending agreement to the Gas Purchase Contract between the Applicant and Southeastern Michigan Gas Company, dated 7 November 1984, to reflect the approved export price at Emerson, Manitoba of 279.0 cents in United States currency per gigajoule of gross heating value;

   (b) a fully executed transportation agreement between the Applicant and TransCanada PipeLines Limited governing the transportation of natural gas on an interruptible, "best efforts" basis from the Alberta/Saskatchewan border to Emerson, Manitoba;

   (c) the requisite Alberta energy removal permit or, until such time as a removal permit can be secured for the required quantities of natural gas to be sold to Southeastern Michigan Gas Company, a fully executed gas purchase contract with TransCanada PipeLines Limited for interim supply on an interruptible, "best efforts" basis.

5. This Order is conditional upon the Applicant filing with the Board the documentation identified in condition 4, in a form satisfactory to the Board, on or before the 30th day of April, 1985 or on such later date, as upon application, the Board may specify.

6. Natural gas exported under the authority of and in accordance with this Order shall be delivered to the point of export near Emerson, in the Province of Manitoba.

7. The Applicant shall interrupt at any time the export of natural gas authorized hereunder whenever and to whatever extent pipeline capacity is inadequate to satisfy the requirements for:

   (a) firm and interruptible domestic sales and firm and interruptible transportation services provided for the transportation of gas for consumption in Canada; and

   (b) firm export sales and firm transportation services provided for the transportation of gas for export.

8. The Applicant shall furnish to the Board, within fifteen (15) days of the end of each month comprised in the term of this Order, a report setting forth the daily quantities, relative density and gross heating value of the natural gas exported hereunder.

9. The quantity, relative density and gross heating value of all natural gas exported under the authority of and in accordance with this Order shall be measured by the Applicant in a manner approved by the Board.

NATIONAL ENERGY BOARD

G. Yorke Slader, Secretary

Appendix I
Reasons for Decision in the Matter of the Incrementality of the Proposed Northridge Sale

NATIONAL ENERGY BOARD

REASONS FOR DECISION

IN THE MATTER OF

THE INCREMENTALITY OF A PROPOSED SALE OF
BEST EFFORTS GAS BY
NORTHRIDGE PETROLEUM MARKETING, INC.
TO SOUTHEASTERN MICHIGAN GAS COMPANY

MARCH 1985

IN THE MATTER OF the *National Energy Board Act* (hereinafter called "the Act") and the Regulations made thereunder;

AND IN THE MATTER OF an application by Northridge Petroleum Marketing, Inc. (hereinafter called "Northridge) for a short-term gas export order pursuant to subsection 8(2) of the National Energy Board Part VI Regulations;

AND IN THE MATTER OF the incrementality of the proposed Northridge gas sale relative to other existing Canadian gas export sales.

HEARD in Ottawa, Ontario on 8 March 1985.

BEFORE

C.G. Edge	Presiding Member
L.M. Thur	Member
R.B. Horner	Member

APPEARANCES:

A.S. Hollingworth	Northridge Petroleum Marketing, Inc.
D. Dawson K.F. Keeler	Northwest Alaskan Pipeline Company and Pan-Alberta Gas Ltd.
C. Conoley	Panhandle Eastern Pipe Line Company
J.R. Smith,Q.C.	Alberta and Southern Gas Company Ltd.
A.R. Fraser	Dome Petroleum Limited
D. Rawlyk	British Columbia Petroleum Corporation
W.M. Smith	Alberta Petroleum Marketing Commission
D.G. Hart, Q.C.	ProGas Limited
S. McAllister	Consolidated Natural Gas Limited
D. Assh	Board Counsel

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BACKGROUND

Northridge Petroleum Marketing, Inc. (Northridge) applied to the National Energy Board on 12 December 1984, as amended 20 December 1984 and 17 January 1985, pursuant to subsection 8(2) of the NEB Regulations, for a gas export order for a short-term sale of 170.0 million cubic metres (6 Bcf) of gas to Southeastern Michigan Gas Company (Southeastern) during the period to 1 December 1986. Pursuant to the Board's stated regulatory procedures of 2 October 1984 the Board notified all interested parties of the Northridge proposal requesting that any party wishing to comment on the Northridge application file such comments with the Board on or before 1 February 1985.

The Board received written comments to the Northridge application from Northwest Alaskan Pipeline Company (Northwest Alaskan) and Pan-Alberta Gas Ltd. (Pan-Alberta) both of which expressed concern with respect to the incrementality of the proposed Northridge sale.

Initial Evidence and Comments Regarding Incrementality

Northridge had noted in its application that the proposed gas sale to Southeastern would be used to preclude industrial load from switching to No. 6 fuel oil and to fill storage during the summer to be used for winter peaking purposes. Northridge also stated that Southeastern had pursued a strategy of diversifying its gas supply purchases and that the alternate source of gas to the proposed Northridge export was U.S. produced gas which ANR Gathering Company (ANR Gathering) had offered to sell to Southeastern. The ANR Gathering sale would be at a price which would be less than the commodity price being paid by Southeastern to its major supplier, Panhandle Eastern Pipe Line Company (Panhandle).

Northwest Alaskan commented that Northridge's sale to Southeastern would not be incremental to other Canadian sales because Southeastern was an all requirements customer of Panhandle which in turn purchased a portion of its supplies from Northwest Alaskan, which company purchased Pan-Alberta exports of Canadian gas pursuant to a long-term gas export sales contract. Northwest Alaskan commented that because of the above-noted supply relationship, Northridge's sale could result in reduced Pan-Alberta exports under its long-term gas export sales contract with Northwest Alaskan. Pan-Alberta also filed comments, and in an argument similar to that forwarded by Northwest Alaskan argued that the Northridge proposal was not incremental because it could displace Pan-Alberta's existing export sales to Northwest Alaskan.

The Board decided that it was in the public interest to hold a public hearing in order to determine whether the proposed Northridge sale was in fact incremental to other existing Canadian gas export sales in Southeastern's market area.

DECISION

The Board's views and decision based on all of the evidence and argument presented at the Hearing are as follows:

Southeastern indicated that until recently it had purchased 97 percent of its total gas supply requirements of some 14 Bcf from Panhandle Eastern. However, in an endeavour to reduce its cost of gas, it had decided as a strategic corporate policy to diversify 5 Bcf of its supply to other sources, which in effect would be "spot" purchases.

In this regard Southeastern had already purchased 2 Bcf of "spot" gas from ANR Gathering at a price that was lower than Panhandle's firm rate of $U.S. 3.61 per MMBtu. Southeastern also indicated that it intended to purchase another quantity of "spot" gas, namely 3 Bcf, from Northridge at a price of $U.S. 3.51 per MMBtu if Northridge could obtain an export order for this amount of gas. Southeastern's witnesses testified that the company would buy the same volume of "spot" gas from ANR Gathering or from Oklahoma independents at the same price that Northridge was offering in the event that the export order was refused. There was further testimony that Southeastern would only buy the 3 Bcf from Panhandle if Panhandle's price was less than that of other suppliers.

Southeastern's witnesses indicated that it had gained approval from the Michigan Public Service Commission for the use of a special rate which would enable it to retain business exposed to competition from No. 6 fuel oil. The Commission's approval of the rate was purportedly dependent upon Southeastern demonstrating its determination to buy lower cost sources of gas by having recourse to "spot" sales which would be lower in cost than supplies from Panhandle.

The Board finds that while Northridge's proposed "spot" sale was intended to be used indirectly to prevent the loss of sales by Southeastern to fuel oil, it is, in fact, gas to gas competition because other sources of similarly priced gas are available to Southeastern should Northridge fail to obtain an export order.

Panhandle stated that Southeastern's business was important to it and that it was reluctant to lose the sale. Panhandle also indicated that even though the commodity component of its existing purchases of Canadian gas (from Pan-Alberta) delivered into the Panhandle system was only $U.S. 2.29 per MMBtu, it was not able to be more flexible in its pricing arrangements due to federal and state regulatory controls. Thus, Panhandle could only offer gas to Southeastern at $U.S. 3.61 per MMBtu which was roughly 10 cents per MMBtu higher than the delivered price of the Northridge gas.

Panhandle adduced no evidence that it could supply on acceptable terms to Southeastern the 3 Bcf of gas, being offered by Northridge.

Panhandle indicated that only 7 percent of its gas supply was purchased from Pan-Alberta. Panhandle was not able to adduce clear evidence on the extent, if any, of a cut-back in its purchases of Pan-Alberta gas should it lose the sale of the 3 Bcf of gas in question. Its witnesses asserted generally that a reduction would likely take place. The Board holds that even if a cut back in purchases from Pan-Alberta were proved this evidence would be irrelevant in light of the assertion by Southeastern that it would not in any case buy from Panhandle if the latter did not reduce the price offered to Southeastern below that offered by Northridge and ANR Gathering. There was as herein above mentioned no evidence that Panhandle could (because of regulatory inflexibilities) or would offer such a competitive price.

The Alberta Petroleum Marketing Commission argued that the Northridge sale was incremental within the meaning of the Federal Government's Pricing Guidelines for exports of natural gas. The Board finds, in the circumstances prevailing in Southeastern's marketplace today, that Northridge's proposed sale is incremental as defined in the Policy Guidelines.

The Board holds that inasmuch as there are wide-ranging inquiries by the Federal Energy Regulatory Commission (FERC) into the rate design and transportation of natural gas, the outcome of these inquiries could have an effect on the incrementality of the Northridge sale. Therefore the Board is only prepared to recognize the incrementality of the Northridge sale to 31 March 1986. This is without prejudice to Northridge's ability to demonstrate to the Board at a later date, that the sale continues to be incremental beyond 31 March 1986.

C. G. Edge
Presiding Member

L.M. Thur
Member

R.B. Horner
Member

Ottawa, Canada
March 1985